

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GREEN HILLS WATER)	
DISTRICT FOR A RATE ADJUSTMENT)	CASE NO.
PURSUANT TO THE ALTERNATIVE RATE)	92-486
FILING PROCEDURE FOR SMALL UTILITIES)	

O R D E R

On November 17, 1992, Green Hills Water District ("Green Hills") filed its application for Commission approval of a proposed increase in its rates for water service. Commission Staff, having performed a limited financial review of Green Hill's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding Green Hill's proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, then this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 8th day of December, 1992.

PUBLIC SERVICE COMMISSION

ATTEST:


Executive Director


For the Commission

COMMONWEALTH OF KENTUCKY
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STAFF REPORT

Prepared By: Karen S. Harrod, CPA
Public Utility Financial
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Research Division

STAFF REPORT
ON
GREEN HILLS WATER DISTRICT
CASE NO. 92-486

A. Preface

On November 17, 1992, Green Hills Water District ("Green Hills") filed its application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tariffed water rates by 61 percent, an increase in annual operating revenues of \$32,507.

In order to evaluate the requested increase, the Commission Staff ("Staff") would ordinarily perform a limited financial review of the utility's operations for the test period, the twelve month period ending June 30, 1992. However, in this instance, Green Hills requested and received Staff assistance in preparing its application. As a result, the field review procedures were performed prior to the filing of the application. Karen Harrod, CPA, of the Commission's Division of Rates and Tariffs conducted the review on September 9, 1992 at Green Hills' office, in Bledsoe, Kentucky. Etta Townsend of the Commission's Research Division performed a review of Green Hills' reported revenues at the Commission's office in Frankfort, Kentucky.

The findings of Staff's review have been reduced to writing in this report. Ms. Townsend is responsible for the sections related to operating revenues and rate design. The remaining sections of the report were prepared by Ms. Harrod. Based upon the findings contained herein, Staff recommends that Green Hills be allowed to increase its annual operating revenues by \$32,507.

Scope

The scope of the review was limited to obtaining information to determine whether test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed in this report.

During the course of the review, Green Hills was advised that all proposed adjustments to test year expenses must be supported by some form of documentation and that all such adjustments must be known and measurable.

B. Analysis of Operating Revenues and Expenses

Operating Revenue

Green Hills' statement of operations shows operating revenue from water sales of \$53,884. The billing analysis filed in the application will produce revenue of \$53,472 at the present rates. The billing analysis filed as part of the application is based on a 12-month period ending June 30, 1992. Staff concurs with Green Hills' billing analysis and has adjusted test-period revenues by \$412. Staff has used the revenue produced by the billing analysis in its determination of revenue requirements. Under the proposed rate schedule, Green Hills' billing analysis will produce operating revenues of \$86,020.

Operating Expenses

In its application Green Hills reported operating expenses of \$80,088 for the test year. The pro-forma adjustments to test period expenses are discussed in the following sections of this report.

Labor

For the test year Green Hills reported labor expense of \$21,377. An adjustment was proposed in the application to increase this amount by \$2,783 to reflect the current salary levels of Green Hills' employees. Staff has reviewed the current salary schedule and is of the opinion that this adjustment meets the rate-making criteria of being known and measurable. Accordingly, Staff recommends labor expense be increased by \$2,783 to a pro-forma level of \$24,160.

Purchased Power

Green Hills reported test year purchased power expense of \$4,779. An adjustment was proposed to annualize this expense based on the expense actually incurred during the test period. Based on Staff's review, the adjustment is reasonable and should be allowed for rate-making purposes. Therefore, an adjustment has been included by Staff to allow an increase in purchased power expense of \$32.

Chemicals

For the test year Green Hills reported chemicals expense of \$3,907. In its application an adjustment was proposed to increase this amount by \$275 to annualize test year expense for testing for volatile chemicals. Test year operations included this expense for only three quarters at a cost of \$275 per quarter. Staff is of the opinion that this adjustment is appropriate and should be included in the calculation of Green Hills' revenue requirement.

Materials and Supplies

In its application Green Hills reported materials and supplies expense of \$10,059 for the test year. Adjustments were proposed to decrease this amount by a total of \$2,457 to capitalize and depreciate items that were inappropriately expensed during the test year. These items included the replacement of Green Hill's filter media at a cost of \$1,477 and a new pump at a cost of \$980. Staff has reviewed the calculations and invoices associated with the filter media and pump and recommends these adjustments be allowed for rate-making purposes. Accordingly, Staff has adjusted test year operations to reflect proforma materials and supplies expense of \$7,602.

Contractor Services

For the test year Green Hills reported contractor services expense of \$4,367. Of this amount, \$370 was related to the installation of the new filter media discussed in the materials and supplies section of this report. An adjustment was proposed to decrease test year contractor services expense by the \$370 to allow for the capitalization and depreciation of the total cost of the filter media. Staff concurs with the proposed adjustment and, therefore, has included it in the calculation of Green Hills' revenue requirement.

Transportation

During the test year Green Hills incurred transportation expenses of \$3,578. The expenses classified as transportation included payments for monthly truck expense and operator fees. Based on Staff's review, the current truck expense and operator fees are incurred at levels of

\$75 and \$250 per month, respectively. An adjustment was proposed to increase test year expense by \$322 to annualize test year operations for the current expense levels. Staff is in agreement with the adjustment and has included transportation expense of \$3,900¹ in Green Hills' adjusted operations.

Insurance Expense

Green Hills reported test year insurance expense of \$2,717 which it proposed to increase by \$186 to reflect the most recent premium amounts paid by the utility for workers compensation, property and liability insurance and a fidelity bond. Staff has reviewed the invoices associated with this expense and is of the opinion that this adjustment meets the rate-making criteria of being known and measurable. Accordingly, Staff has included an adjustment to increase test year insurance expense to a pro-forma level of \$2,903.

Miscellaneous Expense

Green Hills reported test year miscellaneous expense of \$10,041 which it proposed to decrease by \$8,697. Based on Schedule 2 of the application, \$7,391 of the adjustment was to eliminate the expense of various taxes which are simply collected and subsequently remitted by Green Hills and, therefore, are not actual operating expenses of the utility. This amount also included payroll taxes which will be addressed in the next section of this report.

¹ \$75 + \$250 = \$ 325
 x 12 months
 \$3,900

The remaining items included in the proposed adjustment were as follows:

- Annualization of quarterly garbage collection fees (Test year expense includes 5 quarters.)	<\$ 30>
- Elimination of PSC Assessment which was also included as a separate line item.	< 76>
- Amortization of the expense of an Operations and Maintenance manual over a period of 5 years (\$1,000 + 5 = \$200)	< 800>
- Elimination of non-recurring transfers of funds to reserve account	< 400>
Total	<u><\$1,306></u>

It is Staff's opinion that these adjustments are reasonable and should be included for rate-making purposes.

Payroll Taxes

In its application Green Hills did not report payroll tax expense as a separate line item but, rather, as a component of miscellaneous expense. An adjustment was proposed to include this expense at a pro-forma level of \$1,848² based on the current level of salary expense of \$24,160. Staff recommends this adjustment be included and, accordingly, has adjusted test year operations to reflect payroll tax expense of \$1,848.

Depreciation

Green Hills reported depreciation expense of \$19,185 for the test period. Adjustments were proposed to include the depreciation of the aforementioned media filter and pump over a period of 10 years. According to the Commission's Engineering Staff, 10 years is a

² Current Salary Expense	\$24,160
FICA Rate	x 7.65%
Payroll Tax Expense	<u>\$ 1,848</u>

reasonable service life for both the filter media and the pump. Therefore, Staff concurs with the proposed increase and has included additional depreciation expense of \$283³ in Green Hills' adjusted operations.

Operations Summary

Based on the recommendations of Staff, Green Hill's operating statement would appear as set forth in Appendix B to this report.

C. Revenue Requirements Determination

With regard to existing long-term debt, Green Hills' average annual debt service requirement is \$11,450. Based on the adjusted test period operations, Green Hills' average debt service coverage ("DSC") is -1.64x.⁴ Staff is of the opinion that a DSC of 1.2x is necessary to allow Green Hills to meet its operating expenses and service its debt. Therefore, Staff recommends that Green Hills be allowed to increase its annual revenues by the proposed amount of \$32,507, calculated as follows:

Adjusted Operating Expenses	\$74,293
Annual Debt Service	11,450
20 Percent DSC	2,290
Total Revenue Requirement	<u>\$88,033</u>
Less: Normalized Operating Revenues	\$53,903
Interest Income	1,623
Required Increase	<u>\$32,507</u>

³ Filter Media (\$1,477 + \$370)	\$ 1,847
Pump	980
Total Cost	<u>\$ 2,827</u>
Estimated Service Life	+ 10 years
Recommended Increase	<u>\$ 283</u>


⁴ <\$18,767> + \$11,450 = <1.64>

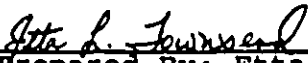
D. Rate Design

As part of its application, Green Hills filed a schedule of its existing and proposed rates. Green Hills did not propose to change its current rate structure; therefore, any increase granted in this case should be added to the existing rate structure.

Staff recommends that the rates as set out in Appendix A be approved for services rendered.

E. Signatures


Prepared By: Karen S. Harrod, CPA
Public Utility Financial
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Water and Sewer Revenue
Requirements Branch
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Public Utility Rate
Analyst
Communications, Water and
Sewer Rate Design Branch
Research Division

**APPENDIX A
TO STAFF REPORT CASE NO. 92-486**

The Staff recommends the following rate be prescribed for customers of Green Hills Water District.

First 2,000 Gallons	\$16.90 Minimum Charge
Next 6,000 Gallons	8.35 Per 1,000 Gallons
Over 8,000 Gallons	4.05 Per 1,000 Gallons

APPENDIX B
TO STAFF REPORT CASE NO. 92-486

Green Hills Water District
Statement of Adjusted Operations
Test Year Ended 6/30/92

	<u>Test Year per Application</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
Operating Revenues			
Water Sales	\$ 53,884	\$ (412)	\$ 53,472
Other Operating Revenues	431		431
Total Operating Revenues	<u>\$ 54,315</u>	<u>\$ (412)</u>	<u>\$ 53,903</u>
Operating Expenses			
Labor	21,377	2,783	24,160
Purchased Power	4,779	32	4,811
Chemicals	3,907	275	4,182
Materials & Supplies	10,059	(1,477)	
		(980)	7,602
Contractor Services	4,367	(370)	3,997
Transportation	3,578	322	3,900
Insurance	2,717	186	2,903
Regulatory Commission	78	-0-	78
Miscellaneous	10,041	(8,697)	1,344
Payroll Taxes	-0-	1,848	1,848
Depreciation	19,185	185	
		98	19,468
Total Operating Expenses	<u>\$ 80,088</u>	<u>\$ (5,795)</u>	<u>\$ 74,293</u>
Operating Income	<u>\$(25,773)</u>	<u>\$ 5,383</u>	<u>\$(20,390)</u>
Interest Income	<u>1,623</u>		<u>1,623</u>
Income Available for Debt Service	<u>\$(24,150)</u>	<u>\$ 5,383</u>	<u>\$(18,767)</u>